

# Corporate Functions

The HKMA maintains effective communication with the community and the market through the media, website, public education programmes and other various channels to facilitate public understanding about its policies and operations. During the year, the HKMA continued to improve corporate governance by supporting professional development of staff, instituting rigorous financial discipline and enhancing IT security to cope with challenges arising from the implementation of new initiatives and the increasing complexity of work.



## ENGAGING THE COMMUNITY

### Media relations and social media

The HKMA works closely with the media to enhance transparency and promote public understanding about its policies and work. In 2018, 96 open press events were held, comprising 21 press conferences, 11 stand-up interviews and 64 other public functions. A further 39 media interviews were arranged. A total of 462 bilingual press releases were issued and a large number of media enquiries were handled every day.

To raise awareness of the HKMA's key functions, in-depth media briefings and educational workshops were conducted for local and overseas media on a wide range of topics, such as the Linked Exchange Rate System (LERS), fintech development, green finance, and infrastructure financing. The HKMA further strengthened its capability in public communications through the use of social media by launching its official Facebook page in July while enhancing the content of the existing YouTube channel and LinkedIn page.



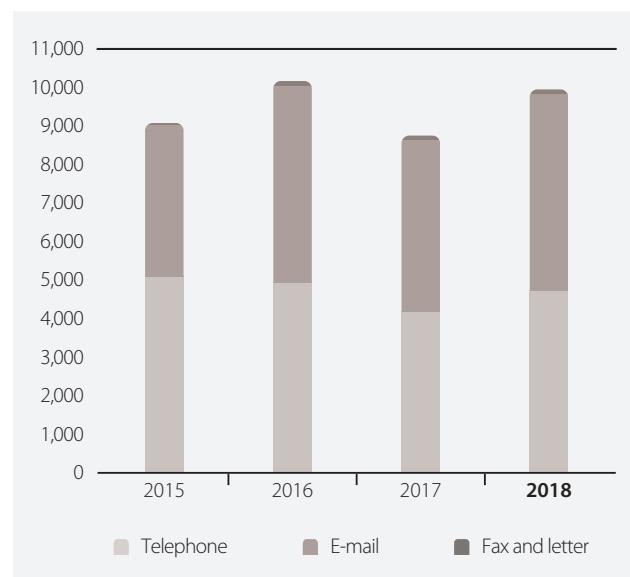
*HKMA Chief Executive, Mr Norman Chan (left), and the Big Waster (mascot of the Environment Bureau) jointly promote the use of good-as-new banknotes for lai-sees through social media.*

### Public inquiries

The Public Enquiry Service provides an effective means for the public to better understand the key functions and operations of the HKMA. A total of 9,950 enquiries were handled in 2018, about half of which were related to banking policies and regulations, consumer banking issues as well as notes and coins. Notable examples included the Coin Collection Programme, banking products and services, banking-related guidelines and circulars, Faster Payment System (FPS), virtual banks, and the 2018 New Series Hong Kong Banknotes.

Chart 1 shows the number of public enquiries received since 2015 and Chart 2 provides a breakdown by enquiry nature in 2018.

**Chart 1 Total number of public enquiries**



### Follow us:

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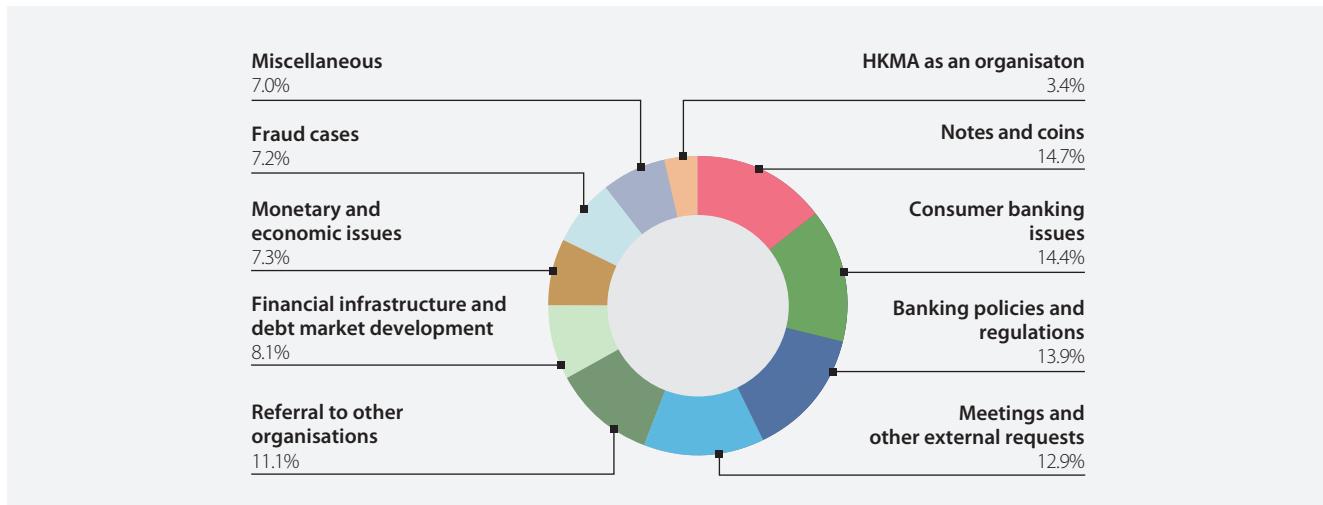


LinkedIn



## Corporate Functions

**Chart 2 Nature of enquiries received in 2018**



## Publications

Apart from the *HKMA Annual Report*, in 2018 the HKMA published two issues of the *Half-Yearly Monetary and Financial Stability Report*, four issues of the *Quarterly Bulletin* and regular updates of the *Monthly Statistical Bulletin* to provide up-to-date and thematic information and analyses on monetary, banking and economic issues in Hong Kong. In addition, the HKMA published a total of 13 *inSight* articles, covering various topical issues related to its work.

## HKMA website

The HKMA corporate website ([www.hkma.gov.hk](http://www.hkma.gov.hk)), with more than 60,000 pages in English and traditional and simplified Chinese, is the public access gateway to up-to-date information about the HKMA. It also contains the register of authorized institutions (AIs) and local representative offices and the register of securities staff of AIs, both maintained under section 20 of the Banking Ordinance, as well as the register of stored value facility (SVF) licensees under the Payment Systems and Stored Value Facilities Ordinance. Dedicated webpages and eye-catching short-cut links are designed to draw public attention to the new initiatives of the HKMA, such as the FPS, and important and timely information, such as reminders on the need to remain vigilant against bogus telephone calls and the location of Coin Carts under the Coin Collection Programme.

Setting an example for the adoption of Open Application Programming Interface (Open API) in the banking sector, the HKMA launched Open APIs on its corporate website in July to provide convenient access by the public to the HKMA's important information. The first batch of 50 sets of Open API were launched successfully in July, covering the information most frequently accessed by the public, such as statistics on the banking sector and the Exchange Fund, as well as press releases and Coin Cart Schedule. The remaining 80 sets will be developed and rolled out by phases by mid-2019. As a further step to facilitate the public to obtain the HKMA's latest news and information from the website more easily, the HKMA is overhauling the layout and content of its corporate website to make it more user-friendly. The newly designed website is expected to be launched in 2019.



*The HKMA embraces the development and application of Open API.*

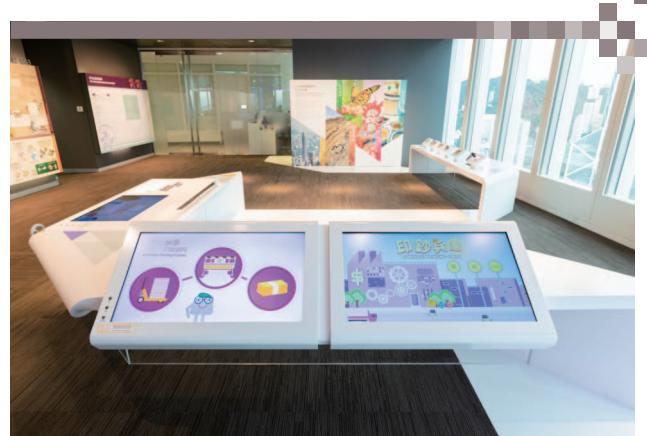
## Corporate Functions

### Public Education Programme

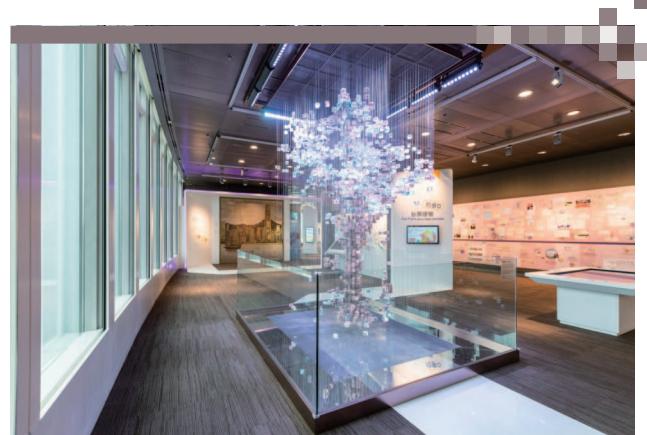
The HKMA Information Centre on the 55th floor of Two International Finance Centre is an important resource for introducing the work of the HKMA to the community and promoting public awareness of monetary and banking matters. It consists of an exhibition area and a library, and is open to the public six days a week. The exhibition area introduces the work of the HKMA and the development of money and banking in Hong Kong. It also contains reading materials and exhibits for the study of Hong Kong's monetary, banking and financial affairs.

In the first quarter of 2018, the Information Centre commenced a refurbishment of its currency section, which introduces the design, security features, production process and other fun facts about Hong Kong notes and coins. Various interactive elements, such as games that integrate playing into learning, were introduced to enhance the experience of visitors. In addition, an artistic Bauhinia tree made up of 2,018 pieces of see-through cubes filled with shredded currency notes that are no longer fit for circulation was installed alongside a mosaic artwork made of Hong Kong coins. The currency section, with its new look, was re-opened to the public on 16 August.

The Information Centre organises guided tours for visitors. During the year, it received more than 59,000 visitors and hosted over 580 guided tours for schools and other groups (Chart 3). More than 705,000 people have visited the Information Centre since it opened in December 2003. The library, situated next to the exhibition area, houses more than 26,000 books, journals and other publications for the study of Hong Kong's monetary, banking and financial affairs and central banking topics. It also maintains the register of AIs and local representative offices and the register of securities staff of AIs, as required by section 20 of the Banking Ordinance.



*Interactive games are introduced to explain the production process of Hong Kong notes.*



*The artistic Bauhinia tree is suspended in mid-air, with lighting effects that feature its beauty in different seasons.*



*Guided tours of the Information Centre are organised for schools and other groups.*

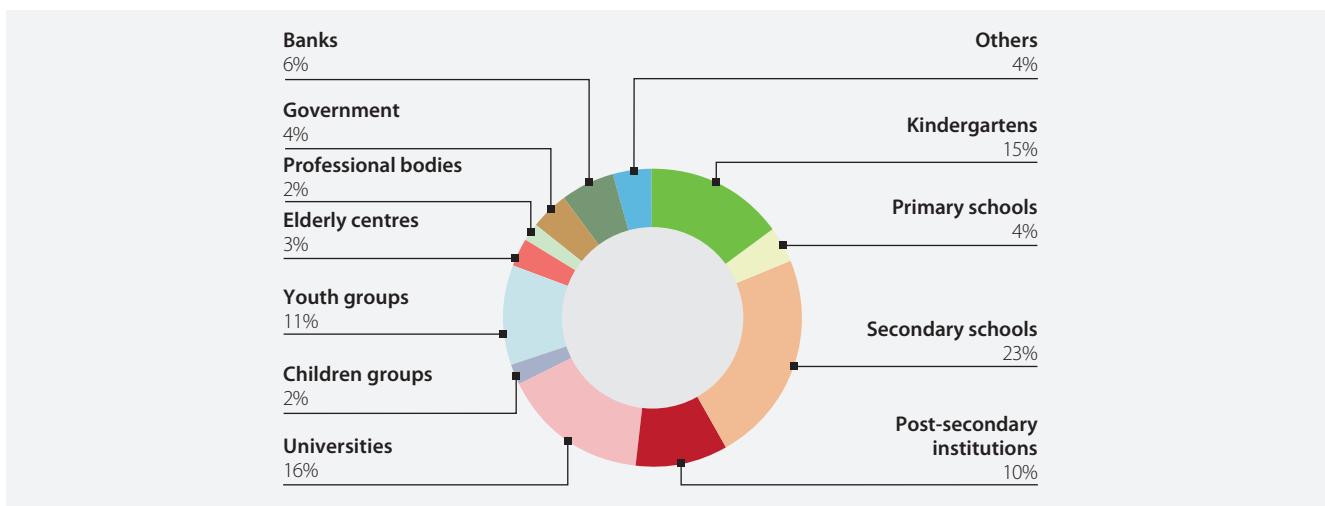
## Corporate Functions



Secondary school students and teachers from different districts participate in the public education seminar.

To reach out to the community and raise public awareness of the HKMA's work, the HKMA organised three public education seminars for about 1,500 secondary school students and teachers in 2018. Topics covered in the seminars included the LERS, Hong Kong banknotes, banking stability, the Deposit Protection Scheme, FPS, SVFs, fintech, consumer protection and careers in the financial industry. Close to 60,000 teachers and students have participated in this public education programme since its launch in 1998.

**Chart 3 Types of group visits to the Information Centre in 2018**



## Corporate Functions

### OUR PEOPLE

While the HKMA is an integral part of the Government, it employs staff on terms different from those of the civil service to attract people with the right experience and expertise. As a public organisation, the HKMA makes continuous efforts to streamline its work to improve efficiency and cost-effectiveness. The HKMA also aims to maintain a lean and flexible structure and, where possible, to redeploy staff resources to undertake new initiatives and meet the increasing workload.

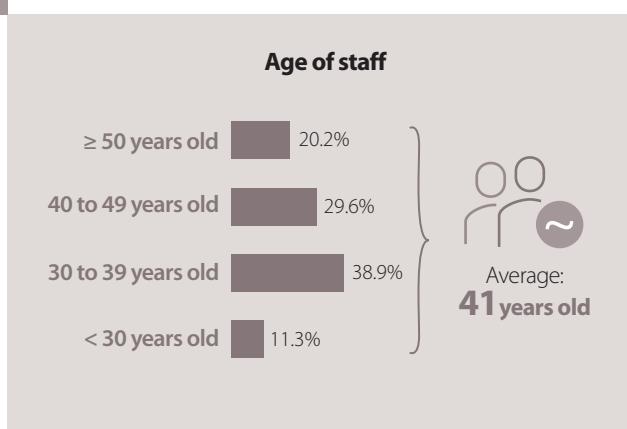
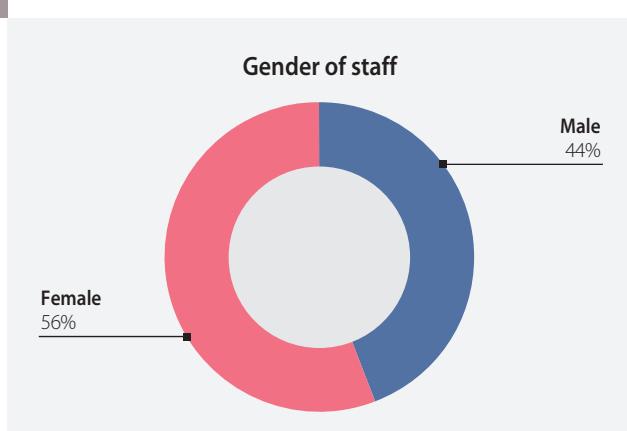
The HKMA is an equal opportunities employer. It ensures that everyone works in an environment free of discrimination. Its equal opportunities policy applies to employment, compensation and benefits, performance assessment, promotion, posting/training opportunities, and general conduct.

The HKMA recruits, develops and maintains a highly professional workforce to support its policy objectives and respond flexibly to changing work priorities. The HKMA is committed to maintaining a high degree of integrity and ethical standards among its staff. All staff members are expected at all times to observe an exemplary standard of personal conduct and integrity and to act in the best interests of the HKMA.



## Corporate Functions

### Human capital key statistics on 1 January 2019



### Organisational changes in 2018

The Exchange Fund Investment Office (EFIO) was established on 1 August to house the investment and related risk management functions of the HKMA previously undertaken by the Reserves Management Department and the Risk & Compliance Department. The establishment of the EFIO creates a distinct identity for the HKMA's investment function, raises its institutional profile and makes it more agile and responsive to market changes. These are important to support the continued expansion and diversification of the Exchange Fund's investment activities.

## Corporate Functions

Table 1 gives a breakdown of the establishment and strength of the HKMA.

**Table 1 Establishment and strength of the HKMA on 1 January 2019**

Department	Functions	Senior staff		Others	
		Establishment	Strength	Establishment	Strength
Senior Executives' Office	Top management of the HKMA	4	4	9	9
Banking Conduct	To take charge of payment systems oversight, licensing, and all supervisory and development functions relating to the business conduct of AIs	1	1	86	86
Banking Policy	To formulate supervisory policies for promoting the safety and soundness of the banking sector, enhance the capacity building of industry practitioners and consumer education, and take charge of the deposit protection function	1	1	47	47
Banking Supervision	To supervise operations of AIs	1	1	176	161
Enforcement and AML	To investigate and where appropriate take enforcement action under relevant Ordinances, supervise anti-money laundering and counter-terrorist financing systems and handle complaints	1	1	99	91
Exchange Fund Investment Office	To manage reserves in line with established guidelines to achieve investment returns and enhance the quality of returns by diversifying investments into different markets and asset types	1	1	105	83
Risk and Compliance*	To oversee all risk-generating activities, including investment risks and other non-investment related corporate risks of the HKMA	1	1	43	37
External	To help develop and promote Hong Kong as an international financial centre, foster regional monetary co-operation through participation in the international central banking and financial community, and promote the development of financial markets	1	1	59	54
Financial Infrastructure	To develop and enhance the financial market infrastructure for maintaining and strengthening Hong Kong's status as an international financial centre, take charge of the settlement function, and ensure an adequate supply of banknotes and coins	1	1	56	51
Monetary Management	To maintain financial and monetary stability through macro-financial surveillance and monitoring of market operations, license and supervise SVFs, and designate and oversee important Retail Payment Systems	1	1	52	51
Research	To conduct research and analyses on economic and financial market developments in Hong Kong and other economies	1	1	41	33
Office of the General Counsel	To provide in-house legal support and advice	1	1	28	21
Corporate Services	To provide support services in the form of administrative, finance, human resources, information technology and secretariat services, and handle media and community relations	1	1	168	161
Internal Audit Division	To provide audit services through assisting the management in controlling risks, monitoring compliance and improving the efficiency of internal control systems and procedures	0	0	10	10
Resolution Office	To establish resolution standards, contribute to international resolution policy development, undertake local and cross-border resolution planning, develop operational capabilities to implement resolution, and execute the orderly resolution of a failing AI or a cross-sectoral group if needed	0	0	10	9
<b>Total</b>		<b>16</b>	<b>16</b>	<b>989</b>	<b>904</b>

\* Staff members overseeing investment risks are part of the Exchange Fund Investment Office set-up. For presentational reason they are grouped under Risk and Compliance Department.

## Corporate Functions

### Remuneration policies and pay review mechanism

The Financial Secretary (FS) determines the pay and conditions of service for HKMA staff on the advice of the Governance Sub-Committee (GSC) through the Exchange Fund Advisory Committee (EFAC), taking into account the prevailing market rates and practices. Remuneration comprises a total cash package and a provident fund scheme, with minimal benefits in kind. The cash package consists of monthly fixed pay (or basic pay) and variable pay, which may be awarded to individual staff members as a lump sum once a year, depending on performance.

Pay for HKMA staff is reviewed annually by the FS in the light of recommendations made to him by the GSC through the EFAC, taking into account the GSC's assessment of the performance of the HKMA in the preceding year, the pay-survey findings of the financial sector conducted by independent human resources consultants, and any other relevant factors. Special pay adjustments may be made from time to time for individual meritorious staff members to maintain their pay competitiveness.

Any approved annual adjustments to the fixed pay and any variable pay awards for the HKMA are distributed to individual staff members based on their performance. Investment staff members are subject to a variable pay system that seeks to strengthen the link between their investment performance and remuneration award. The pay adjustments and awards for individual staff members at the ranks of Executive Director and above are approved by the FS on the advice of the GSC. The staff members concerned are not present at the meetings when their pay is discussed. The pay adjustments and awards for individual staff members at the ranks of Division Head and below are determined by the Chief Executive of the HKMA under delegated authority from the FS and within the approved overall pay awards.

### Remuneration of senior staff members

The remuneration packages of senior staff members in 2018 are shown in Table 2.

**Table 2 Remuneration packages of HKMA senior staff members in 2018<sup>1</sup>**

HK\$'000	Deputy Chief Executive/ Senior Executive Chief Executive	Chief Director (average)	Executive Director (average)
Number of staff <sup>2</sup>	1	4	15
Annualised pay			
Fixed pay	7,238	6,116	3,904
Variable pay	2,600	1,887	1,107
Other benefits <sup>3</sup>	1,138	803	471

1. Except for annual leave accrued, the actual remuneration received by staff members who did not serve out a full year is annualised for the purpose of calculating the average annual package for the rank.
2. The number of staff in this table includes staff members who did not serve out a full year. The HKMA senior staff members include the Chief Executive Officer of the Hong Kong Mortgage Corporation, the Commissioner of the Resolution Office, and the Chief Operating Officer of the Exchange Fund Investment Office.
3. Other benefits include provident funds or gratuity as the case may be, medical and life insurance, and annual leave accrued during the year. The provision of these benefits varies among senior staff members, depending on individual terms of service.

## Corporate Functions

### Staff development

The HKMA accords priority to capacity development of its staff members to cater for operational needs, staff's career development, and to increase staff's adaptiveness to new challenges. Considerable efforts are devoted to training staff's vertical (or job-specific) and horizontal (or general) skills in accordance with the identified individual and organisational needs. During the year, a number of training initiatives were launched to support various functional areas like banking supervision and investment management. Topical briefings on HKMA's work and new/emerging trends were also arranged so that staff were kept abreast of the latest developments in the financial areas. These included briefings on the LERS, fintech developments, new series of Hong Kong banknotes, big data, financial infrastructure, FPS, and bank culture. The training programmes were organised in-house or by the Government, other central banking institutions, local and overseas universities, consultants and training institutions.



*A training session on new developments in banking supervision*



*Internal briefing on "New series of Hong Kong banknotes"*



*Group coaching and practice session on communications*

## Corporate Functions

The HKMA attaches great importance to the conduct and integrity of its staff. Continuous efforts are made to maintain staff's awareness on conduct-related rules and regulations on an ongoing basis. A Continuous Capacity Development Programme was introduced to encourage the culture of continuous learning and as a means to upkeep the competency level of HKMA staff. The HKMA also runs a training sponsorship scheme to support staff to pursue studies relevant to the work of the HKMA. Reimbursement of membership fees of relevant professional bodies is also provided.

To facilitate staff to gain exposure and promote cross-fertilisation of skills and experience, the HKMA encourages staff to rotate across different job areas and offers secondment opportunities to the HKMA's New York Office, HKMA-related organisations, other regulatory authorities, or the Government. Secondment to international and local organisations such as the International Monetary Fund (IMF) and the Financial Services Development Council is also arranged so that staff can assist in activities or policy initiatives in which Hong Kong or the HKMA plays a key role. Some staff members are deployed on a full-time or part-time basis to provide support to the Hong Kong Deposit Protection Board and the Treasury Markets Association.

## Corporate Functions

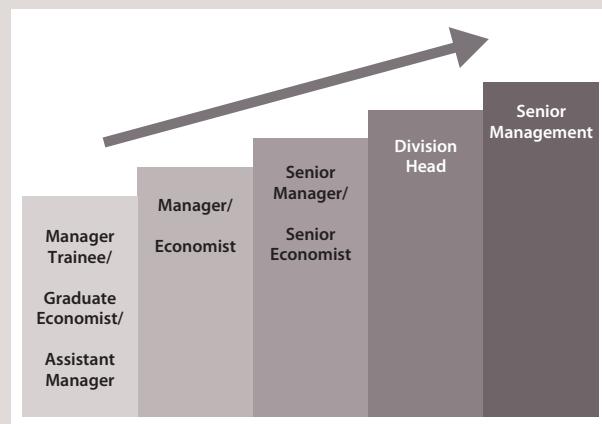
### Manager Trainee (MT) and Graduate Economist (GE) programmes

To develop a pool of young talents with sharp analytical mind, strong communication skills and good team spirit for a long-term career in central banking, the HKMA runs two trainee programmes: the MT programme and the GE programme. Each programme lasts for a period of two years.

The MT programme prepares young graduates interested in central banking work to become the HKMA's future key management team and contribute to the financial stability and prosperity of Hong Kong. Each MT undergoes on-the-job training in two to three departments to acquire hands-on experience in the important functions of the HKMA. Under the GE programme, young graduates interested in economic research are offered the opportunity to harness their research skills in two or three departments to provide important input to the policy formulation process.

Both the MT and GE programmes provide an all-rounded career development environment for the trainees. Apart from on-the-job training, the MTs and GEs also attend structured foundation central banking courses, organised both in-house and by leading regional and international organisations. Upon successful completion of the respective programmes, MTs are offered appointments as Managers and GEs as Economists to further pursue a professional career in the organisation.

### Career Prospects



*MTs and GEs attend the Macroeconomic Diagnostics Programme, which is hosted by the HKMA and co-organised by the IMF and the South-East Asian Central Banks.*

## Corporate Functions

### Assistant Managers (AMs)

AMs form an important backbone of the HKMA's professional staff. Most AMs work in the banking departments to promote the safety and stability of the banking system. A small number of AMs work in other functional areas, providing analytical and other forms of support. Young graduates with a keen interest in banking supervision and regulation would find the position of AM a good starting point for a fulfilling career.

### Internship Programmes

The HKMA runs summer and winter internship programmes for undergraduates to equip them with practical work experience and insights about the roles of a central bank. Talks, training sessions and guided tours to the Information Centre are provided to interns to give them a better understanding of the functions and work of the HKMA.



*Interns meet with the HKMA's management team in a gathering session.*

## Corporate Functions

### CORPORATE SOCIAL RESPONSIBILITY

#### Work-life balance and staff's well-being

The HKMA promotes work-life balance and cares about staff's health and work safety. Regular talks on healthy lifestyles and workplace safety are organised and indoor air quality is monitored. Breakout areas and ergonomic furniture are included in the new office design. Annual on-site medical check-ups and flu vaccinations are arranged. The HKMA also sponsors a professional counselling service comprising experienced psychologists and social workers.

Throughout the year, different activities are organised to enhance staff's physical wellness, promote their sense of belonging, and foster cooperation and team spirit. Various interest classes are held for staff members and their families. Staff members have opportunities to mingle by participating in inter-organisational, cross-divisional activities such as basketball and football competitions with fellow regulators.



*Supervisory Cup Basketball Competition*



*Supervisory Cup Football Competition*

#### HKMA and the community

The HKMA supports community services through participation in volunteer and charitable activities. The HKMA also cares about the environment.

#### Volunteer and charitable activities

The Agency for Volunteer Service awarded the HKMA a Certificate of Appreciation for the Volunteer Team's devotion to volunteer services in the year 2017–18.



*International Volunteer Day Recognition Ceremony 2018*

## Corporate Functions

In 2018, the HKMA Volunteer Team continued to participate in different charitable events.

### **"V-Run and Walk"**

organised by the Agency for  
Volunteer Service



### **"McDull Charity Run 2018"**

organised by the Samaritan  
Befrienders Hong Kong



### **"Flag Day 2018"**

organised by the Hong  
Kong Association for  
Cleft Lip and Palate



### **"Po Leung Kuk Charity Run"**

organised by  
Po Leung Kuk



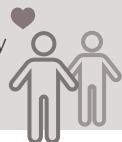
### **"Running Oi Man"**

organised  
by the Senior Citizen Home Safety  
Association



### **"Walk for Love: Towards Life's Rainbow"**

organised by the  
Little Life Warrior Society



### **"Tree Planting Day"**

organised by the  
Conservancy Association



**Home visits**, to the elderly living  
in the Kwun Tong District, organised  
by the Senior Citizen Home Safety  
Association, and those living in the  
Sham Shui Po District, organised by  
the Neighbourhood Advice-Action  
Council



## Corporate Functions



The HKMA Volunteer Team participates in "Running Oi Man"

The HKMA Hiking Team participated in the "Challenging 12 Hours Charity Marathon" to support Sowers Action in promoting education aid in Mainland China. The team completed the 42km marathon in five hours and 59 minutes and won the second runner-up in the Corporate Cup.



Tree Planting Day

HKMA staff members took part actively in the Blood Donation Day, MSF Day, Territory-Wide Flag Day, Community Chest's Green Day, Love Teeth Day, Skip Lunch Day and Dress Casual Day. They also participated in regular campaigns that collected clothes, toys and other reusable items for donation to charities.



Challenging 12 Hours Charity Marathon



Blood donation in the office

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### Caring Organisation

In recognition of its commitment in caring for the community, the HKMA was accredited with the “**10 Years Plus Caring Organisation Logo**” by the Hong Kong Council of Social Service.



### Green measures

The HKMA has an established environmental policy to protect and preserve the environment. The policy and implementing measures are promulgated among its staff. Office green measures include:

#### Paper/Photocopying/Printing



- Using recycled paper/envelopes.
- Distributing electronic copies instead of hard copies of documents.
- Printing on both sides of the paper.
- Using colour printing/copying only when necessary.
- Avoiding using paper cups and reducing the use of paper hand towels.

#### Electricity



- Switching off PCs, printers, lights, audio-visual systems and other electrical appliances when they are not in use.
- Reactivating the pre-set power-saving mode installed in most equipment, for example, water dispensers, electric punching machines and shredders, after use outside their pre-set operating hours.
- Reviewing regularly the need for additional air-conditioning beyond normal business hours.

#### Recycling



- Making good use of recycled bins for collecting different categories of waste including paper, cans, bottles, batteries, CDs and ink cartridges.

### Green achievements in 2018



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## ADMINISTRATION

The HKMA regularly reviews its corporate resources, including space requirements, to ensure that its operational needs are met. To keep its workplaces well-equipped and occupationally safe, the HKMA carries out office repair and maintenance work from time to time.

Business continuity plans for the HKMA are reviewed constantly to ensure their effectiveness in a changing business and social environment. Drills on evacuation and the activation of back-up facilities are conducted every year to ensure the responsiveness and preparedness of staff in carrying out various business continuity measures. A dedicated team monitors influenza alerts and other relevant infectious diseases to ensure that necessary precautionary and contingency measures are taken in a timely manner.

## FINANCE

### **Annual budget**

In drawing up the annual budget, the HKMA takes into account its ongoing operations and strategic development, set out in its three-year plan approved by the FS on the advice of the EFAC. Departments are required to assess their needs for the coming year and to review whether savings in staffing and expenditure can be achieved. This requires departments to assess critically the value of existing services and the cost-effectiveness of delivery methods. The Finance Division scrutinises all budget requests in communication with individual departments before submitting a consolidated draft budget, including a headcount proposal, for further scrutiny by senior management. The GSC of the EFAC then deliberates on the proposed budget and recommends any changes it considers necessary, before putting it through the EFAC to the FS for approval.

All expenditure items are subject to stringent financial controls through detailed procurement rules and guidelines. Compliance with these guidelines is subject to internal audit and is reviewed by independent auditors during the annual audit of the Exchange Fund. Expenses are analysed and reported to senior management every month.

The administrative expenditure in 2018 and the budgeted expenditure for core activities in 2019 are shown in Table 3. The difference between the 2018 actual expenditure and the 2019 budget is mainly due to an increase in staff costs, including the full-year effect of staff changes and pay review in 2018, and a planned net increase of 43 posts in 2019.

Table 4 shows other expenses that are not related directly to the HKMA's own operations. Expenses related to the provision of financial support (including premises and administrative costs) to international organisations, whose presence in Hong Kong promotes the city's status as an international financial centre, are expected to remain broadly stable in 2019. Spending on financial infrastructure is related to the operation and continued development of payment and settlement systems to enable markets to function efficiently and securely. The HKMA also provides operational support to the Hong Kong Deposit Protection Board on a cost-recovery basis, as endorsed by the FS according to section 6 of the Deposit Protection Scheme Ordinance (Cap. 581).

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**Table 3 HKMA administrative expenditure**

HK\$ million	2018 Budget	2018 Actual	2019 Budget
<b>Staff costs</b>	1,475		1,589
Salaries and other staff costs		1,243	
Retirement benefit costs		111	
<b>Premises expenses</b>			
Operating lease charges	31	31	31
Other premises expenses (including management fees and utility charges)	72	61	73
<b>General operating costs</b>			
Maintenance of office and computer equipment	133	122	121
Financial information and communication services (including trading, dealing terminals and data link charges)	69	56	79
External relations (including international meetings)	62	31	63
Public education and publicity	24	18	28
Professional and other services	98	54	114
Training	17	9	18
Others	14	11	16
<b>Total administrative expenditure</b>	<b>1,995</b>	<b>1,747</b>	<b>2,132</b>

**Table 4 Additional expenses**

HK\$ million	2018 Budget	2018 Actual	2019 Budget
Financial support to international financial organisations in Hong Kong	41	41	41
Subsidy to the Hong Kong Institute for Monetary Research	20	14	22
Service fees for financial infrastructure	189	94	200

### Financial disclosure

The HKMA adopts international standards in financial disclosure insofar as these are applicable to central banking operations. These include the Hong Kong Financial Reporting Standards (HKFRSs) and other applicable reporting requirements, for example, the IMF's Special Data Dissemination Standard. Working with external auditors and other accounting professionals, the Finance Division prepares and presents the Exchange Fund's financial statements in accordance with the HKFRSs. To achieve a high level of transparency, the HKMA also provides detailed disclosure and thorough analyses of a wide range of expense items and budgetary information in its *Annual Report*.

### INFORMATION TECHNOLOGY

The Information Technology (IT) Division maintains a reliable and secure IT operational environment that supports the smooth and efficient operation of the HKMA. In 2018, all time-critical systems of the HKMA maintained full operational uptime.

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Cybersecurity continued to be a high-priority task of the IT Division. All emerging threats in cyber space are monitored closely and the IT security system is put under regular reviews. A business contingency plan is also in place and is updated from time to time to ensure continued operation of all critical systems. To ensure continued reliability of the HKMA's IT systems, ageing components of the IT infrastructure are being updated in batches. In addition, a project to revamp the existing Exchange Fund's portfolio investment systems was initiated in 2018 to update the system capabilities amid the sophisticated investment environment.

## SETTLEMENT SERVICES

The Settlement Section provides efficient and robust settlement services and operational support to reserves management, monetary operations and other initiatives undertaken by the HKMA. In 2018, the Settlement Section enhanced the security of its processes against the risk of cyber-attacks through heightening operational and system controls. As the financial industry is developing rapidly through technological advancement and innovation, the Settlement Section will continue to respond swiftly to new changes. At the same time, it will stay vigilant towards cyber-risks to ensure accurate, efficient and safe transfers of funds and assets of the Exchange Fund.

## OFFICE OF THE GENERAL COUNSEL

The Office of the General Counsel (OGC) is responsible for providing legal advice to the HKMA on all aspects of its functions.

In the course of providing legal support for the operation of each line department within the HKMA, the OGC assists in the planning and implementation of specific projects and initiatives involving complex issues of commercial, regulatory and administrative law. Examples in 2018 include:

- continued implementation of Basel Committee on Banking Supervision standards through the Banking (Exposure Limits) Rules, the Banking (Capital) (Amendment) Rules 2018 and the Banking (Disclosure) (Amendment) Rules 2018

- continued development of the resolution regime in Hong Kong for banking sector entities, including recovery and resolution planning for systemically important authorized institutions; establishing loss-absorbing capacity requirements through the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements — Banking Sector) Rules; and preparatory work for the issuance of subsidiary legislation on stays on contractual termination rights
- review of rules and other supporting documentation for the implementation of the FPS
- preparatory work for the fourth round of mutual evaluation of Hong Kong's compliance with Financial Action Task Force Recommendations.

The OGC also provides commentary to government bureaux on significant legislative proposals and responds to consultations on matters which may impact the functions or mandates of the HKMA.

OGC lawyers provide legal support for the HKMA's participation in various international working groups and attend seminars, meetings and conferences for legal experts, central bankers, financial regulators and the banking community to keep abreast of topical developments and to discuss and resolve issues of current legal concern.

## INTERNAL AUDIT

The Internal Audit (IA) Division provides independent and objective assurance on the adequacy and effectiveness of the HKMA's control, risk management and governance processes. The IA Division reports directly to the Chief Executive of the HKMA and the Audit Sub-Committee (ASC) of the EFAC.

Adopting a risk-based approach, the IA Division conducts operational audits and system security reviews to cover all significant risk areas of the HKMA. It also advises on major system development projects and internal control issues in response to requests from senior executives and management. Risk updates are provided to the Risk

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Committee regularly, while audit progress and key internal control matters are reported to the senior executives and the ASC on a quarterly basis.

### RISK MANAGEMENT

One of the most important tasks of the HKMA is to manage risks to the monetary and banking systems. Risk management is undertaken both at a working level in the day-to-day operations of the HKMA and at a higher level through strategic planning. There are two high-level committees under the HKMA's risk management framework, namely the Macro Surveillance Committee and the Risk Committee. Both committees are chaired by the Chief Executive of the HKMA.

The terms of reference of the Macro Surveillance Committee are:

- to identify potential risks and threats to the monetary and financial system in Hong Kong and discuss possible measures to address such risks
- to review existing measures for managing risks in the monetary and financial system to identify possible gaps and ensure the adequacy of these measures
- to encourage cross-department sharing of relevant information on macro surveillance with a view to enhancing the macro surveillance capability of the HKMA.

The terms of reference of the Risk Committee are:

- to identify potential risks and threats to the organisation and devise strategies to reduce the impact of such events

- to review the existing system for managing risks across different departments to identify possible gaps and significant risks and ensure the adequacy of measures to address them
- to harmonise the criteria and methods of risk measurement and prioritise the resources management of risks identified
- to encourage a stronger risk management culture institutionally which promotes the proper levels of authorisation and controls.

Because of the growing complexity of activities the HKMA engaged in, and the increasing public expectations of the organisation's work, the operational risk management process was strengthened in 2012. The framework now covers organisational risks at two levels: entity-level and department-level. Entity-level risks refer mainly to those which concern the entire organisation in the medium term, or which might call for a cross-departmental response. Potential and emerging risks identified by the business units, and the adequacy of the control measures and mitigating strategies they devise, are reviewed and reported quarterly. This is supplemented by a top-down approach to manage entity-level risks, in which senior colleagues heading different business units actively identify risks of wider impact and propose mitigating measures. These assessments are discussed at the Risk Committee, which decides on appropriate follow-up actions.

### EXTERNAL AUDITOR

In accordance with section 7 of the Exchange Fund Ordinance, the Audit Commission of the Government of the Hong Kong Special Administrative Region audits the financial statements of the Exchange Fund. The Commission does not charge for this service.